

REVIEW RATE SETTING PROCESS OF INTERNATIONAL POSTAGE RATES

JOINT HEARING
BEFORE THE
SUBCOMMITTEE ON
POSTAL OPERATIONS AND SERVICES
OF THE
COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
AND THE
SUBCOMMITTEE ON HUMAN RIGHTS AND
INTERNATIONAL ORGANIZATIONS
OF THE
COMMITTEE ON FOREIGN AFFAIRS
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REVIEW RATE SETTING PROCESS OF INTERNATIONAL POSTAGE RATES

TUESDAY, JULY 12, 1988

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON POSTAL
OPERATION AND SERVICES, COMMITTEE ON POST OFFICE
AND CIVIL SERVICE, JOINT WITH SUBCOMMITTEE ON
HUMAN RIGHTS AND INTERNATIONAL ORGANIZATIONS,
COMMITTEE ON FOREIGN AFFAIRS,

Washington, DC.

The subcommittees met, pursuant to call, at 2:00 p.m., in room 311, Cannon House Office Building, Hon. Robert Garcia presiding.

Mr. GARCIA. Good afternoon.

I would like to welcome all of you to this joint hearing of the Subcommittee on Postal Operations and Services, and the Subcommittee on Human Rights and International Organizations.

Our subject today is the sudden massive increases in international rates for magazines, which went into effect this past April. Since the rates were increased only two days after the comment period expired, the Postal Service had little opportunity and apparently no intention of considering the comments submitted.

The first issue here is the inherent unfairness of this proposal. The proposal rates are very high, ranging from a 29 percent to nearly 40 percent increase. Unlike the domestic rate increase proposals, the Postal Service can arbitrarily and unilaterally raise the rates of these mailers without going through a formal hearing before the Postal Rate Commission, thus, the avenue for a full hearing on the merits of the proposal, with input from the affected parties, is not available.

Further, the proposed rate increases went into effect just one month after they were announced, giving mailers very little time to budget and prepare for the increases.

The second issue has to do with the impact this rate increase would likely have on the dissemination of important scientific, technological and medical publications sent around the world. In 1983 this subcommittee held a joint hearing with the Subcommittee on Human Rights and International Organizations to highlight the adverse effect the similar rate proposal would have had on people in many nations, especially developing and third world countries, which rely on the information provided in these journals.

We also will hear testimony today concerning one of the most important factors that determines international postal rates: the

terminal dues charged for delivery of foreign originating mail. The terminal dues are charged by most countries, and charges established in the Universal Postal Convention, which are approximately \$3.50 per kilogram of mail. This is the charge regardless of whether the mail consists of letters weighing under one ounce or books weighing two or more pounds. Increases in these terminal dues costs have a great effect on all international rates.

I am delighted our first witness today is Mr. Frank R. Heselton, Assistant Postmaster General for Rates and Classifications. I would apologize to the Assistant Postmaster General for our late start. I was at another hearing and was called and asked by the subcommittee staff to come and chair this meeting. Having been a previous chairman of this subcommittee at one time, I said I would be only too happy to do it. I would appreciate if you would submit your statement for the record and if you would be kind enough to summarize as to what your statement is about.

However, before you give your statement, the Chair would have the statement of Congressman Gus Yatron, chairman of the Subcommittee on Human Rights and International Organizations, appear as though read in full.

STATEMENT OF HON. GUS YATRON, CHAIRMAN, SUBCOMMITTEE ON HUMAN RIGHTS AND INTERNATIONAL ORGANIZATIONS

Mr. YATRON. Today's joint hearing is indeed most timely and extremely important.

I want to commend the chairman of the Postal Operations Subcommittee, Mickey Leland, for his initiative in this exercise. He has shown tremendous leadership on postal rate and other related issues.

As chairman of the House Foreign Affairs Subcommittee on Human Rights and International Organizations, I remain deeply concerned over the effectiveness of international agencies, and the extent to which these multitude of organizations address U.S. concerns and fulfill their obligations to the world community.

I am somewhat troubled by the current rate system established by the Universal Postal Union [U.P.U.] for terminal dues, which refers to the payments made between postal administrations for the handling and delivery of postal items in the country of designation. The basic problem with the current rate system is that it is based on overall weight of the mail, and not the number of items received. Studies have shown that the number of items is a much more significant factor than the U.P.U. rate schedules assume.

Apart from being unfair and inequitable, the U.P.U. terminal dues system has been shown to be adverse to U.S. interests. Our outbound mails tend to be heavier publication-type mailings, with a much smaller proportion in the lightweight categories. For incoming mails, the reverse is true. Thus, we overpay other countries for the delivery of U.S. mail.

Moreover, I am concerned that the U.P.U. terminal dues rate has also resulted in the loss of American jobs and dollars to the U.S. economy by driving some publishers to move their foreign printing and mailing business overseas for economic reasons.

Efforts to revise the U.P.U. terminal dues rate have been frustrated by the controlling votes of the developing countries because the current system is to their advantage. Moreover, there has been some expression of concern that, depending on the type of arrangement, certain proposals could hamper remail companies from competing with the postal administration.

As a member of the Post Office and Civil Service Committee, I also have deep concerns over the way in which the Postal Service implemented the rate increases for international periodicals, as well as the size of the increases. The new rates constitute an increase of approximately 40% and could have a deleterious effect on the ability of American companies to maintain sizeable levels of international circulation, seriously affecting our export trade. Many of those affected by the rate increase have maintained that they were not given enough time to respond to the proposal or to adjust to the hefty rate system.

I welcome this hearing today to explore these and other issues. I look forward to hearing from our witnesses and for the opportunity to ask some important questions.

Mr. GARCIA. Mr. Heselton, would you now give your summary statement?

STATEMENT OF FRANK R. HESELTON, ASSISTANT POSTMASTER GENERAL, U.S. POSTAL SERVICE RATES AND CLASSIFICATION DEPARTMENT

Mr. HESELTON. Mr. Chairman, I would be happy to proceed that way.

I am Frank Heselton, Assistant Postmaster General, Rates and Classification Department. Among various responsibilities, I supervise the development and implementation of domestic and international postal rates. I thank the subcommittees for this opportunity to talk about international rates and fees.

My statement addresses three areas of concern:

First, I will talk about the international rates and fees that were implemented in April. Then I will briefly describe the conditions which now prevail in the international mail market. Finally, I will discuss what the Postal Service is doing to cope with the changes that have occurred to lessen their impact on mailers.

Mr. Chairman, rather than go through the statement, which describes the sequence of events to the rate increases, let me just indicate that I would like to proceed to the issue of the amount of rate increase to indicate on the record that in the view of the Postal Service, the amount for the surface AO articles was unavoidable.

Surface AO mail, which consists of printed matter, publishers' periodicals, books and sheet music, had incurred major cost increases, and was projected to produce revenues far below its handling costs. The main reason for this was an increase in terminal dues costs. Terminal dues are the fees charged by foreign postal administrations to deliver in their country mail that originates in the United States.

The Postal Service took several steps to minimize the amount of the increase. It set new rates to yield revenues that would just cover costs for surface AO mail without contributing to the Postal

Service's general overall costs. Moreover, the proposed publishers' periodicals rates reflected the maximum 50 percent reduction from the regular printed matter rate permitted by the Universal Postal Union Convention.

These considerations—covering costs, not seeking a contribution to overhead, and giving the maximum discount allowed by the Convention—make it plain that the Postal Service was sensitive to the effects on publishers of the surface AO rate increases.

On this particular occasion, of increase, the policy of concurrent implementation of domestic and international rates adversely affected publishers, who had to absorb large rate increases on relatively short notice.

Much of the problem would have been avoided if the international rate proposals could have been published sooner. They were not published until March for two reasons.

For the first time, in developing new international rates, we separated outbound international costs from inbound international costs, so that costs incurred by outbound mail would be separately considered in setting rates. This process took longer than expected, and was not completed until December 1987.

Additionally, new issues produced by terminal dues developments had to be addressed. In particular, these issues concerned the development of letter rates to Canada, which are different from domestic letter rates, which is a departure from prior practice. These particular conditions are not likely to occur again. In the future, we certainly intend to allow for more time to deal with changes in rate making procedures that may be required.

Regarding the recent implementation of new international postage rates, this was the first change in these rates since 1985. In January 1986, terminal dues fees, which contribute to international mail costs, increased 45 percent. This increase had a profound effect on the costs for heavier weight pieces, such as publisher's periodicals.

Terminal dues are intended to reimburse a foreign country for the cost of delivering mail originating outside its borders. The Universal Postal Union Convention has established a terminal dues fee per kilogram of mail to be delivered. The fee is the same for a kilogram of mail consisting of one piece destined to one address, or a kilogram of a number of pieces destined to a number of different addresses, even though it costs considerably more to deliver multiple pieces to multiple addresses.

The terminal dues fees represents an averaging of costs to deliver lighter and heavier weight mail pieces. This terminal dues structure badly disadvantages countries like the United States, where the Postal Service transmits to foreign countries many more heavier-weight pieces than it receives, and receives many more lighter-weight pieces than it sends.

A terminal dues fee based on average-weight pieces overcompensates the foreign countries that receive heavier pieces and undercompensates countries like the United States, which receive lighter-weight pieces that require more delivery effort per kilogram.

The growing competition in international mail increases the significance of this imbalance. Competition reemphasizes the necessity for international postal rates for all kinds of mail to be cost based,

or our customers will no longer find our international services competitive with those of private carriers.

The Postal Service has not remained passive while an irrational terminal dues structure undermines its international mail business. It has introduced new international services with competitive rates to try to adapt to the needs of its customers. It has concluded a bilateral arrangement with one country for terminal dues based on actual costs. This arrangement has had the effect of increasing terminal dues charges for letters, but reducing the charges for heavier-weight pieces.

The Postal Service is continuing its efforts to correct the anomalous Universal Postal Union terminal dues situation that is adversely affecting American mailers. In the longer term, the solution to most of the rate problems is a new Universal Postal Union terminal dues structure that reflects the costs of handling different kinds of mail. The Postal Service intends to pursue this goal vigorously at the next Universal Postal Union Congress, which will be held in Washington next year.

More immediately, the Postal Service would like to obtain cost-related bilateral terminal dues arrangements with more countries. Progress is being made on this front, and we hope to obtain several additional terminal dues arrangements in the near future.

This concludes my prepared comments. I would be happy to answer any questions you might have.

[The statement of Mr. Heselton follows:]

STATEMENT OF FRANK R. HESELTON
BEFORE THE SUBCOMMITTEE ON POSTAL OPERATIONS AND
SERVICES OF THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
AND THE SUBCOMMITTEE ON HUMAN RIGHTS AND INTERNATIONAL
ORGANIZATIONS OF THE COMMITTEE ON FOREIGN AFFAIRS
OF THE UNITED STATES HOUSE OF REPRESENTATIVES

I am Frank R. Heselton, Assistant Postmaster General, Rates and Classification Department. Among various responsibilities, I supervise the development and implementation of domestic and international postage rates.

I thank these Subcommittees for the opportunity to talk about international rates and fees. My statement addresses three areas of concern. First, I will talk about the international rates and fees that were implemented this April. Then, I will briefly describe the conditions which now prevail in the international mail market. Finally, I will discuss what the Postal Service is doing to cope with the changes that have occurred to lessen their impact on mailers.

On March 3, 1988, the Postal Service announced proposed changes in international rates and fees and requested public comments on the proposals. April 1 was set as the last day for submitting comments. Final rates were to take effect at the same time domestic rate and fee changes took effect.

During the comment period, the Board of Governors of the Postal Service determined that domestic rate and fee changes would be implemented on April 3, 1988, only two days after the close of the comment period for international rates. To implement the international rate changes at the same time, while still allowing time to consider public comments, the Postal Service announced on March 28 that the proposed international

rate and fee changes would take effect on April 3 on an interim basis until review of any comments. The interim rates and fees were generally the same as the rates proposed in the March 3 notice, with some modifications to take into account the effects of some rate and fee adjustments for domestic services that had been recommended by the Postal Rate Commission and approved by the Governors of the Postal Service.

On April 15, 1988, upon completion of its review, the Postal Service published a notice adopting final international rates and fees. These rates became effective on April 17, 1988. This notice addressed each of the comments received on the rate proposals. The final rates were the same as the interim rates that were implemented on April 3, 1988.

The only major complaints about the international rates came from publishers of periodical publications. These mailers understandably were displeased by the amount of the increase in their rates, which averaged about 35 percent. They also were concerned about the relatively short period of time between proposal and implementation of the new rates.

The amount of the rate increase was unavoidable. Surface AO mail, which consists of printed matter, publishers' periodicals, books, and sheet music, had incurred major cost increases and was projected to produce revenues far below its handling costs. The main reason for this revenue deficiency was an increase in terminal dues costs. Terminal dues are the fees charged by foreign postal administrations to deliver in their countries mail

originating in the United States. The Postal Service took several steps to minimize the amount of the increase. It set the new rates to yield revenues that would just cover costs for surface AO mail without contributing to the Postal Service's general overhead costs. Moreover, the proposed publishers' periodicals rates reflected the maximum fifty percent reduction from the regular printed matter rate permitted by the Universal Postal Union Convention.

These considerations -- covering costs, not seeking a contribution to overhead, and giving the maximum discount allowed by the Convention -- make it plain that the Postal Service was sensitive to the effects on publishers of the surface AO rate increases.

Although advance notice that a change in international rates would occur in 1988 was available as early as May 1987, notice of the specific rate changes was less than that provided by the Postal Service in the past. It certainly was by no means as much as it would have liked to have given in this instance. The short notice period resulted partly from the longstanding policy of implementing domestic and international rate changes at the same time. This policy permits rate anomalies to be avoided and makes it easier for the Postal Service and the public to adjust to rate changes. For example, if international rates had not been implemented at the same time as domestic rates, it would have cost three cents less to send an international letter to Mexico or to Canada than a domestic letter for delivery within the

United States. Concurrent implementation also gives international rate changes greater publicity than they would otherwise receive, so customer awareness is greater. Likewise, avoiding separate implementation reduces the confusion associated with numerous rates with which postal clerks must be familiar and avoids giving customers incorrect information.

On this particular occasion, the policy of concurrent implementation of domestic and international rates adversely affected publishers, who had to absorb large rate increases on relatively short notice. Much of the problem would have been avoided if the international rate proposals could have been published sooner. They were not published until March for two reasons.

For the first time in developing new international rates, we separated outbound international costs from inbound international costs, so that the costs incurred by outbound mail would be separately considered in setting rates. This process took longer than expected and was not completed until December 1987. Additionally, new issues produced by terminal dues developments had to be addressed. These issues concerned developing letter rates to Canada different from domestic letter rates, international air letter rates, and surface AO rates. These issues took from December 1987 to late February 1988 to resolve.

These particular conditions are not likely to occur again. Having developed procedures to separate outbound costs from inbound costs, this separation will be made at the same time

domestic cost data are produced. Also, having addressed the rate issues mentioned, future consideration should not take as long. Additionally, we certainly intend to allow more time in the future to deal with any changes in rate-making procedures that may be required.

In sum, the Postal Service recognizes that the notice of rate increases given to some users of international mail this year was short. The Postal Service will correct this in the future by proposing international rate changes earlier in advance of implementation than it did on this occasion.

Regarding the recent implementation of new international postage rates, this was the first change in these rates since 1985. In January 1986, terminal dues fees which contribute to international mail costs increased 45 percent. This increase had a profound effect on the costs of heavier-weight pieces such as publishers' periodicals.

Terminal dues are intended to reimburse a foreign country for the cost of delivering mail originating outside its borders. The UPU Convention has established a terminal dues fee per kilogram of mail to be delivered. The fee is the same for a kilogram of mail consisting of one piece destined to one address or a kilogram of a number of pieces destined to a number of different addresses even though it costs considerably more to deliver multiple pieces to multiple addresses. The terminal dues fee represents an averaging of costs to deliver lighter and heavier-weight mail pieces.

This terminal dues structure badly disadvantages countries like the United States, where the Postal Service transmits to foreign countries many more heavier-weight pieces than it receives, and receives many more lighter-weight pieces than it sends. A terminal dues fee based on average-weight pieces overcompensates the foreign countries that receive heavier pieces and under-compensates countries like the United States which receive lighter-weight pieces that require more delivery effort per kilogram. When these terminal dues charges are incorporated into the rates for international mail, the rates for heavier pieces are higher because the terminal dues costs reflect a higher reimbursement for these pieces than is warranted.

The growing competition in international mail increases the significance of this imbalance. Competition reemphasizes the necessity for international postage rates for all kinds of mail to be cost based, or our customers will no longer find our international services competitive with those of private carriers.

The Postal Service has not remained passive while an irrational terminal dues structure undermines its international mail business. It has introduced new international services with competitive rates to try to adapt to the needs of its customers. It has concluded a bilateral arrangement with one country for terminal dues based on actual costs. This arrangement has had the effect of increasing terminal dues charges for letters, but reducing the charges for heavier-weight pieces.

The Postal Service is continuing its efforts to correct the anomalous UPU terminal dues situation that is adversely affecting American mailers. In the longer term, the solution to most of the rate problems is a new UPU terminal dues structure that reflects the costs of handling different kinds of mail. The Postal Service intends to pursue this goal vigorously at the next UPU Congress, which will be held in Washington next year.

More immediately, the Postal Service would like to obtain cost-related bilateral terminal dues arrangements with more countries. Progress is being made on this front, and we hope to obtain several additional terminal dues arrangements in the near future.

This concludes my prepared comments. I would be happy to answer any questions you may have.

Mr. GARCIA. Thank you very much. I really appreciate the fact that you skipped right through that statement. Your entire statement will be in the record.

There are three or four questions that the staff has put together. With your permission, I would like to read them directly from the book here. If you can respond, I would appreciate it.

Why doesn't the Postal Rate Commission review international rates just like domestic rates?

Mr. HESELTON. Mr. Chairman, the Postal Rate Commission doesn't have jurisdiction over international rates, which are set by the Postal Service in negotiations with the various foreign postal administrations, and through the Universal Postal Union.

Mr. GARCIA. Counsel tells me that there is a serious question whether the statement you have just made is a fact.

Mr. HESELTON. Mr. Chairman, I am not aware of any history of disagreement on this matter. Section 407 of Title 39 indicates that the Postal Service, with the consent of the President, may negotiate and conclude postal treaties or conventions and may establish the rates of postage or other charges on mail matter conveyed between the United States and other countries.

I understand that that is a provision that has been in the law for over 100 years in one form or another.

Mr. GARCIA. To your knowledge, is there any section of the law or legislative history that establishes a clear congressional mandate that the Postal Rate Commission should not review international rates?

Mr. HESELTON. I am not aware of any section that prevents the Postal Rate Commission from doing that other than the express provision of title 39 which indicates the Postal Service does have the authority to establish international rates.

Mr. GARCIA. Does not the Postal Rate Commission already review international costs and revenues in order to establish the revenue requirement for the Postal Service?

Mr. HESELTON. The Board of Governors of the Postal Service submits a revenue requirement to the Postal Rate Commission. The Postal Rate Commission reviews the elements that make up that revenue requirement and in the process, reviews the domestic costs and revenues and reviews revenues and costs for international mail to ensure that the revenues from international mail are in fact covering the costs attributed to it.

The Commission further reviews the data systems which underlie the request before the Commission and those data systems are common to both international and domestic rates.

Mr. GARCIA. It seems to the committee, the new terminal dues agreement should be based on the actual costs of foreign postal service delivering international mail, and are they?

Mr. HESELTON. Yes, Mr. Chairman, they are. With regard to the agreement that we have with Canada, we have established sampling systems to make sure that we are determining the amount of mail that is moving between Canada and ourselves, and that we are in fact tracking the costs associated with handling that mail.

Mr. GARCIA. Your proposals for modifying the terminal dues structure would result in lower rates for periodicals but would drastically increase the rates for letters. The committee finds it

hard to understand the benefit of that, since most of the international mail is comprised of letters. Can you explain it to this committee?

Mr. HESELTON. Yes, I would be happy to. The United States is a net importer of letter-size mail in the exchange of international mail and an increase in terminal dues on the letter category would substantially, we feel, increase the amount of terminal dues that we would be receiving. Right now, our perceptions are that we are handling that mail with a set of costs that is not compensated for reasonably by the terminal dues. The proposed agreements would rectify that problem.

Mr. GARCIA. Are these new terminal dues agreements consistent with the Universal Postal Convention or are the charges different than the charges set down in the convention and have you asked for and received Universal Postal Union approval for those agreements?

Mr. HESELTON. The new terminal dues agreements are consistent with the rules and regulations that we are governed by with regard to the Universal Postal Union, which allow for the Postal Service and other postal administrations to negotiate among themselves on matters like terminal dues. The actual rates that we have established through the Canadian agreement are not consistent with the rates in the Universal Postal Union Convention.

Mr. GARCIA. I would like to take this opportunity to thank you. There are several other questions, but I am sure staff can get them off to you and you can respond at your convenience.

Mr. HESELTON. We would be happy to.

Mr. GARCIA. Thank you very much for being with us today.

Mr. HESELTON. Thank you, Mr. Chairman.

[The following response to written questions was received for the record.]

CONGRESSIONAL QUESTIONS

1. In addition to Canada, are there any other countries with which agreements have been completed but not signed?

The Postal Service has exchanged correspondence making provision for alternative terminal dues arrangements with the postal administration of Sweden and, subject to further clarification, with the postal administrations of Ireland and the United Kingdom.

2. Will you provide these subcommittees with copies of all such agreements?

We are providing copies of the correspondence with the other administrations regarding the arrangements.

- 3 & 4. Since the terminal dues agreements are established by an international postal treaty signed by the President, it would seem that Presidential approval would be required for any international agreements that modify terminal dues charges. Have you received Presidential approval for these agreements? Have you sought Presidential approval?

These modifications of terminal dues are not postal treaties or conventions subject to presidential consent. Accordingly, presidential consent has neither been sought nor received.

5. Your proposals for modifying the terminal dues structure would result in lower rates for periodicals but would drastically increase the rates for letters. I find it hard to understand the benefit of that since most of the international mail is comprised of letters. Can you explain this to us?

By weight, which is how mail volume is measured for UPU terminal dues; only about 20 percent of U.S. outbound international mail volume is letters. Thus, reductions in terminal dues charges for mail other than letters will reduce terminal dues expense for 80 percent of U.S.

origin mail. Moreover, under the UPU terminal dues structure, all administrations are under-compensated for the costs of delivering letter mail. Rectifying this situation will result in all postal administrations paying and collecting terminal dues charges that are more closely related to costs. It should also be pointed out that the Postal Service has been under-compensated by other administrations for delivery of inbound international letter mail. More cost-related terminal dues should relieve some of the pressure to offset these losses through increased rates on originating letter mail and therefore should not contribute to higher rates for letters.

6. Have you asked for an received UPU approval for these agreements?

Under the UPU rules, the Postal Service does not need its approval to make provision for alternative terminal dues.

7. What was the purpose and result of the meeting of Postal directors that took place in Ottawa in late May or early June? And please provide us with a complete written report on that meeting.

The meeting of postal Directors General that took place in Ottawa in May was intended to continue the planning for improvements in international mail services. The results of the meeting are summarized in the attached report.

8. Why did the Postal Service agree to a terminal dues structure that it does not like?

The UPU terminal dues were adopted by a majority vote of the UPU congress. The Postal Service supported a terminal dues structure that was more cost related, but it was on the losing side of the vote. The Postal Service has worked and will continue to work within the UPU structure to correct the problem through bilateral arrangements with administrations that appreciate the inappropriateness of the UPU terminal dues and through negotiations with other UPU members to convince them that the UPU should adopt terminal dues that are more cost related.

9. If the UPU decides to continue this same type of terminal dues structure, how will the Postal Service respond?

Should the current terminal dues structure continue to be sanctioned by the UPU, the Postal Service would pursue alternate arrangements on a country-by-country basis.

10. International mail costs are essentially domestic Postal costs plus international transport costs plus various UPU charges. Why then, as a practical matter, cannot the Rate Commission review international rates?

Unlike domestic rates, international rates are significantly affected by arrangements made between the Postal Service and foreign postal administrations, usually through the UPU conventions or negotiations with individual administrations. A critical factor in our negotiating posture is the ability to speak with authority for the United States on these issues and how they will affect the rates and services provided international mail. A division of responsibilities for international mail ratemaking would tend to undermine the authority with which the Postal Service speaks in international forums. At best, we could only surmise the impact of negotiations on rates and services offered our international customers.

11. What are the contributions to institutional costs made by the following: International Express Mail; International Priority Airmail, International Surface Air Lift and international mail generally? In providing the information please include the method used to calculate these costs?

Our estimates of the contribution to institutional costs for these categories of international mail are as follows (in thousands of dollars):

<u>Category</u>	<u>Revenue</u>	<u>Attributable Costs</u>	<u>Contribution to Institutional Cost</u>
International Express Mail	33,341	17,338	16,003
International Priority Mail	5,474	2,729	2,745
International Surface Airlift	8,864	6,367	2,497
Total International	823,047	517,364	305,684

The contribution to institutional costs for each rate category is determined by calculating the revenue generated in excess of the attributable cost of providing service. The figures shown are for FY 1989, and are calculated from rates effective April 3, 1988.

12. Why did the Postal Service give so little notice that it was going to change international rates?

The Postal Service provided constructive notice that international rates would be increasing when it filed for domestic rate increases in May, 1987, but no specific proposals were set forth at that time. The Postal Service was then examining a rate system which structures outbound rates only on outbound costs which we believe to be a more appropriate manner to develop rates. Moreover, in most instances, the outbound cost based approach reduced the international rate increases compared with rates structured in the previous manner. However, restructuring of the cost systems did take considerable time. International rates became available for the notice and comment procedure only shortly before the domestic rates were to be placed into effect.

We felt at the time, and continue to do so, that the interests of the international mailers were best served by restructuring the cost system. The circumstances leading to the the comparatively short notice were unique. We do not contemplate such substantial changes to the international costing system in the near future and we fully intend to provide a full notice and comment period before future implementation of new international rates.

13. You stated in your testimony that one of the reasons rates had to be increased was that terminal dues had increased 45 percent on January 1, 1986. If the terminal dues increase took effect in 1986, and you knew then that you were going to have to increase rates, why couldn't you have given notice then that you were going to increase rates?

While it may have been possible to indicate that the terminal dues increase effective January 1, 1986 would necessitate a future rate increase for international mail, it would not have been possible to indicate at that time how large a rate increase would be required for each international rate schedule.

14. Why did you think you had to implement international rate changes at the same time as domestic rate changes?

The implementation of domestic and international rate changes at the same time has administrative advantages. These include public awareness of changes affecting all postage rates, as well as avoiding anomalies in rates had domestic and international rates been implemented at different times. For example, if international rates were implemented some time after our domestic rate changes, the letter rate to Canada and Mexico would have remained at 22 cents, three cents below the domestic rate. Concurrent implementation avoids these kinds of situations.

15. You state that one of the reasons for the delay in announcing the international rate increases was the need to separate inbound mail costs from outbound costs? Why did you need to do that this time when you had never done it before?

The separation of these costs and the development of outbound rates on outbound costs had the effect of holding rate levels below what they would otherwise have been. For example, had rates been structured on inbound/outbound costs combined, notice of specific rate changes could have been made earlier but the magnitude of the changes would have had serious consequences for certain mailers. On average, the old methodology would have required surface AO rates to have been increased approximately 60 percent, while rates for Publishers' Periodicals would have increased on average more than 87 percent.

16. What was the reason for increasing periodical rates by 35 percent when you only increased air letter rates by 5 percent?

The main thing affecting heavier weight items is terminal dues cost. Publishers' Periodicals are heavier than air letters, and account for a significant portion of the outbound terminal dues cost to the Postal Service. For example, in 1987 the average weight of an air letter was 0.8 ounces, while the average weight of surface and air AO was 13 ounces. In total weight, surface letters and cards weigh 10 million pounds while surface AO alone weighs just under 100 million pounds.

17. If the rates for air letters are so high, why don't you decrease them and give those mailers a break?

Mailers who use our air letters service have been given a break. Had the Postal Service continued to set air letter rates at twice the domestic letter rate, air letter rates would have been 50 cents for the first unit of postage.

18. Why is it so important that rates for all kinds of international mail cover costs?

It is sound business practice to price services so that each covers its attributable cost. This concept is carefully written into the Act with respect to domestic ratemaking. No extenuating circumstances have been presented which justify cross subsidies for particular classes of international mail - either at the expense of other international mailers or of domestic mailers.

19. The terminal dues agreement with Canada was supposed to produce lower costs for mail like periodicals. Why isn't there a lower periodicals rate for Canada?

The Canadians have interpreted our bilateral agreement to require that publications mailed to Canada pay rates that are the same as those charged for publications mailed to the rest of the world. We are discussing with the Canadian postal administration the possibility of changing their interpretation.

20. If there were a lower periodicals rate for Canada, what would happen to the other periodical rates?

At a minimum, lower periodical rates for Canada could have the effect of raising rates for periodicals being mailed to other countries.

- 21 & 22. Why don't you provide international mailers a hearing on rate increases like the Rate Commission does for domestic mailers? Wouldn't it give international mailers a fairer opportunity to be heard if the Rate Commission held hearings on international rates as well as on domestic rates?

There are several reasons for the Postal Service to have chosen notice and comment rule-making. First, Commission style hearings are useful in resolving factual disputes. Normally, in international ratemaking, there have not been disagreements regarding underlying facts. Even with the controversy surrounding the recent rate increase for publishers' periodicals, it was recognized that the terminal dues arrangements were the primary culprit. Consequently, a proceeding designed to resolve a factual dispute would have little effect.

In addition, Commission style hearings are quite expensive. Our understanding is that the involvement of many of the participants in the domestic hearings may require expenditures of several hundred thousand dollars to millions of dollars. A separate set of hearings or extended hearings would increase an already onerous cost of litigating postage rate increases for many of the participants. With respect to the publishers periodical controversy, it is highly unlikely the Postal Rate Commission consideration would have resulted in reduced rates. The Postal Service applied the same attributable cost test as does the Postal Rate Commission in its deliberations.

Normally, international rate increase proposals fail to arouse the same amount of controversy as domestic rate increases. In those instances where customers or competitors have felt misgivings, the notice and comment procedure has proved to be an effective and inexpensive vehicle to register concerns and receive reconsideration on the part of the Postal Service.

23. What are you doing to ensure that international mailers will receive adequate notice the next time rates change?

As mentioned earlier, the comparatively late notice was caused by unique circumstances. I do not envision any future difficulties. Notice of our intent to change international mail rates will continue to be made in conjunction with our domestic rate change notices which typically are at least 10 months in advance of domestic changes.

08-05-88

Mr. GARCIA. The next panel is Mr. Robert Saltzstein and Philip Lauinger. Mr. Saltzstein is the General Counsel for the Association of Business Publishers, and Mr. Lauinger is Chairman of PennWell Publishing Company.

Gentlemen, welcome.

Mr. LAUINGER. Thank you, Chairman Garcia.

Mr. SALTZSTEIN. This is my friend for many years, Chairman Garcia, Mr. Philip Lauinger of Tulsa, who came today for this hearing.

**STATEMENT OF PHILIP LAUINGER, CHAIRMAN, PENNWELL
PUBLISHING CO.**

Mr. LAUINGER. As Mr. Saltzstein mentioned, I am Chairman of PennWell Publishing Company, headquartered in Tulsa, Oklahoma, with major operations also in the Boston area, at Littleton, Massachusetts.

I would ask that my written testimony be entered into the record and if it is all right with you, sir, I would make some remarks that follow the general train of my testimony, but are slightly revised from what has been submitted.

Mr. GARCIA. Without objection.

Mr. LAUINGER. All right, sir. I present these remarks on behalf of the Association of Business Publishers, which has in its membership over 600 specialized trade, business and technical journals distributed nationally and internationally. I am a former chairman of the Association of Business Publishers. Among other PennWell publications, are our Oil and Gas Journal, out of Tulsa, and the Computer Design Magazine from our Boston operation.

The purpose of my testimony is to describe how the U.S. Postal Service method of setting international second class postal rates discourages international circulation and enthusiasm, penalizes the United States by adversely affecting United States' efforts to stimulate the exports. We propose alternatives, but first, if I may, just a little bit of background.

All of Association of Business Publishers's 800-member periodicals are well known in their fields: "Progressive Architecture," "Interior Design," "The American Journal of Surgery," "World Oil," from Chairman Leland's Houston; "Commercial Car Journal," published in Randor; Pennsylvania, and "Billboard" for example.

My own company publishes 13 business and trade magazines, all but one of which have a significant part of their circulation mailed overseas. Last year we distributed approximately a million copies via U.S. Postal Service outside the United States. Under the recent reenacted international rates, our costs for servicing these copies amounts to about a million dollars annually. Before the increase it was about \$700,000.

By any measure, therefore, our company is a substantial international mailer through USPS, and the cost of serving this part of our total circulation is substantially higher than our domestic costs on a pro rata basis. Thus, the entire subject of how international rates are established and the degree to which they are increased from time to time, is of major import to a publishing house like our own,

and our company is typical of a number of major business magazine publishers in this regard.

I think it is also important to focus on a couple of major policy issues bound up in the international rate question, issues which are not present when domestic postal rates are set. These are issues of international trade and the issue of disseminating American technology, management methods, and economic principles to other nations.

With respect to the trade question, export advertising through the pages of the business press presents often the most efficient method of making overseas sales, particularly with smaller companies, which cannot afford to mount other forms of international business sales efforts.

With respect to dissemination of American technology and business methods, it can be proven beyond a doubt that the American business press is a foremost avenue of informing and educating the work force in many nations around the globe to the benefit of our own economic system, and the practical and productive results it has developed for our own economy.

So I submit that the entire process of establishing international postage rates should take seriously into account not simply the operating costs of post offices here and abroad, but also the aforementioned issues, which are directly influenced by the international circulation of American business journals.

The Postal Service now can do just about what it wants to do with international rates. The Postal Service blames its precipitative action, recent action, on the Universal Postal Union's terminal dues system, but that is no excuse for what the Service did earlier this year. The Postal Service must have known it had a problem of terminal dues costs long before March of this year, but it kept Congress and the publishers in the dark until the very last moment. That was a U.S. Postal Service decision, not a Universal Postal Union decision.

The Postal Reorganization Act contains a defect which lets USPS itself establish international rates. This is in contrast to domestic rates for which a notice period of ten months is in effect provided, along with extensive hearings, and then a decision by the Postal Rate Commission.

Three months ago, the Postal Service employed its international power, as you know, with practically no notice or lead time, increasing international rates 28 to 40 percent. On March 28, 1988, Association of Business Publishers met with USPS and requested a delay in the April 3 deadline so that the full effects of the proposed increase could be assessed and United States policy in connection with Universal Postal Union terminal dues could be reviewed by Congress.

Association of Business Publishers explained that it was impossible to pass through such a large increase without sufficient lead time to adjust to annual subscription and advertising contracts. U.S. Postal Service's position was that the rates had to go into effect April 3 as scheduled. Later that day, Association of Business Publishers filed action in the U.S. District Court in Washington, requesting a restraining order and injunction.

Judge Revercomb did not grant Association of Business Publishers's motion, but he criticized the manner in which USPS imposed those increases, stating "although the court ruling is that USPS has great discretion in setting international rates, the court notes that USPS could have avoided this litigation if it had proceeded in a more organized fashion, and had not implemented interim rates precipitously. If USPS intends to utilize the guise of interim rates to achieve international mail rate increases in the future, U.S. Postal Service would be well advised, or well served, rather to implement formal procedures for doing so."

Mr. Chairman, we have learned through this experience what happens when the U.S. Postal Service has unlimited power to set postal rates without any review by the Postal Rate Commission, Congress, or the courts. Fortunately it cannot do this in domestic rate cases, because it must obtain approval of the Postal Rate Commission. That process requires notice and an opportunity for a hearing before the rate hikes are recommended.

We recommend the Postal Reorganization Act be amended to include international mail under the rate making provisions of the Act. This will not only provide the notice and hearing now denied by the statute, but allow cross examination and meaningful explanation of the terminal dues costs dumped on the United States by nations benefiting from the information contained in U.S. periodicals.

The Postal Rate Commission would have the same authority over international mail that it has for domestic mail. USPS actions have driven Association of Business Publishers to seeking alternatives. We currently have postal experts in Europe discussing possible circulation outside the U.S. mails. It may well be that the terminal dues culprit USPS blames will also prevent the usage of alternatives to the U.S. Postal Service, because foreign post offices that send more mail than they receive, are also subject to the same terminal dues system.

Nonetheless, we are exploring what may be possible if Association of Business Publishers' international publications can leave the U.S. mails. We are exploring direct shipment to Canada and entry into the Canadian post offices for that portion of circulation which is Canadian.

Negotiations in past Universal Postal Union meeting have been futile. In the summer of '89 Universal Postal Union will meet in Washington for six weeks. If the past is a guide, USPS again will raise the issue of terminal dues and again be voted down. The USPS will then throw up its hands, say it did what it could, and announce more double digit rate increases, driving still more publications either out of the U.S. Postal Service, or forcing publishers to eliminate the international portion of their circulation, as just not worth it.

This hurts U.S. sales abroad. Until the terminal dues system is changed, we urge U.S. Postal Service withdrawal from Universal Postal Union, a UN affiliated agency, the same way the United States withdrew from UNESCO, which also voted constantly against the United States. Our negotiators could well spend their time at the 1989 meeting negotiating bilateral rather than multi-lateral Universal Postal Union mail agreements.

Does anyone really think other nations will not want their mail delivered here, or United States mail delivered overseas? If USPS cannot achieve objectives beneficial to the United States, like abolition of the terminal dues system, what possible benefit is there in further U.S. participation? The UNESCO withdrawal was salutary. UNESCO changed and the United States again now participates.

As publishers and advocates of freedom of the press, we also urge this committee to determine what the Universal Postal Union has done to make certain that all Universal Postal Union members permit their citizens to receive journals from all countries, including the United States, without censorship.

In summary, we proposed two steps for your consideration:

First, amending the Postal Reorganization Act so as to make international rates subject to the same procedures as domestic rates, by giving the Postal Rate Commission jurisdiction. A proposed amendment is attached to my testimony, sir.

Secondly, we urge Congress to pass legislation which would require the United States to withdraw from Universal Postal Union until its methods are changed.

We would not be making these recommendations if history were not repeating itself. Past concern by this committee and by publishers has gotten no where. USPS ostensibly unable to act, just goes on unilaterally raising publishers' international rates far more than domestic periodical rates. We appreciate the support we have received from you, sir, and other members of these subcommittees.

[The statement of Mr. Lauinger follows:]

Testimony of Association of Business Publishers
 Before the Subcommittee on Postal Operations,
 House Post Office Committee, and the
 Subcommittee on Human Rights and
 International Organizations House of Foreign
 Affairs Committee, Concerning International Postal Rates

July 12, 1988

Mr. Chairman, members of the Committee: My name is Philip Lauinger. I am Chairman of PennWell Publishing Company, Tulsa, Oklahoma and Littleton, Massachusetts. I present this testimony on behalf of the Association of Business Publishers which has in its membership over 800 specialized trade, business and technical journals distributed nationally and internationally. I am a former Chairman of ABP. Among other PennWell publications are Oil and Gas Journal in Tulsa and Computer Design in Massachusetts.

The purpose of my testimony is to describe how the USPS method of setting international second class periodical postal rates discourages international circulation, and thus penalizes the U.S., by adversely affecting U.S. efforts to stimulate exports. We propose alternatives. But first, some background.

All of ABP's 800 member periodicals are well known in their fields: Progressive Architecture, Interior Design, The American Journal of Surgery, World Oil published in Houston, Commercial Car Journal published in Radnor PA., and Billboard, for example. Those periodicals have varying characteristics but there is one common characteristic: they are small in circulation. Although ABP includes large companies, the average circulation of ABP member periodicals average 55,000 copies per issue. We cannot print overseas economically as Time and

Newsweek for example can and do. At Oil and Gas Journal we use expensive air freight to reach our worldwide circulation, all of it outside the U.S. mails. ISAL, the USPS airlift service, has proven unsatisfactory for both price and service reasons.

Many professional publications are mailed to both domestic and foreign readers who have similar business and professional interests. U.S. trade journals play an important role in reducing the trade deficit and maintaining jobs in the U.S. When international postal rates are suddenly increased 28%-40% with only 22 days notice, publishers have to absorb the loss because subscription and advertising rates are set annually. 22 days is not enough lead time. This happened, Mr. Chairman and members of the Committee, as recently as three months ago.

The Post Office now can do just about what it wants to do with international rates. USPS blames its precipitate action on the Universal Postal Union's terminal dues system, but that is no excuse for what the Service did earlier this year. The Post Office must have known it had a problem with terminal due costs long before March, but it kept Congress and publishers in the dark until the very last moment. That was a USPS decision, not a UPU decision.

There is another problem: Power granted is ordinarily power employed. Unchecked power produces abused power and that's what happens when USPS alone sets USPS international postal rates.

The Postal Reorganization Act contains a defect which lets USPS itself establish international rates. This is in contrast

to domestic rates, for which a notice period of ten months is in effect provided, along with extensive hearings and then a decision by the Postal Rate Commission. Three months ago, the Post Office employed its international power with practically no notice or lead time, increasing international rates 28%-40%.

In November 1983, we appeared before a similar joint hearing of these two Subcommittees on the same topics: excessive international postal rate increases, excessive terminal dues, the Universal Postal Union, and what could be done about those problems. There has been no change.

In 1983 USPS informed publishers that it was considering increasing international periodical rates an average of 25%. We requested, and USPS agreed at that time, to hold off raising rates until Congress held a hearing and USPS could convey the concern of Congress concerning the terminal dues system at the 1984 summer meeting of the Universal Postal Union in Hamburg Germany. In 1983, USPS cooperated with publishers and with Congress in an effort to get the UPU to change the terminal dues system. But it was all to no avail. The weight based terminal dues method continued. The new 28%-40% rate increases are a direct result. USPS blames UPU but USPS signed off at Hamburg for what it now blames the Universal Postal Union.

Your 1983 hearings revealed that international rate increases for periodicals had gone up 685% from 1968 to 1981. The cause of these enormous increases was terminal dues assessed by the Universal Postal Union against the U.S., because the U.S. sends

more mail than it receives. Thus part of the operating cost of many foreign post offices is passed back to the United States.

In the case of periodicals, the mail being handled has been paid for or requested by the citizens of the receiving country, thus benefitting the economy of that country. These people want U.S. periodicals. U.S. business paper publishers want to circulate abroad but they do not want to subsidize the post offices of foreign countries in the process.

The February 1985 increase, although held off two years by USPS, was substantial. It averaged 25% for periodicals. Predictably, international postal volume declined 18.5% from 1985-1987 according to the annual report of the Postmaster General (1987). Additionally, some ABP members whose circulation is entirely abroad, moved their printing abroad, as ABP's witnesses had forecast in their 1983 testimony before these Committees. Weekly periodicals moved their volume to private air delivery -- KLM operates one system -- as USPS' own air rate, known as ISAL, likewise went up because of terminal dues. As bad as our experience had been with the results of UPU decisions and USPS rates based upon them, nothing in the past equals what has just happened in March-April 1988, and the way it happened.

Here is the chronology:

(1) The domestic postal rate case before the Postal Rate Commission was decided March 5, 1988 after ten months of proceedings. During that case which began in May 1987 only domestic rate increases were considered. International rates not

currently subject to Postal Rate Commission jurisdiction were of course not considered.

(2) On March 3, 1988, two days before the Rate Commission issued its domestic decision, USPS issued a notice of proposed increases of 28%-40% for international periodical rates to become effective the same date as domestic rate increases. It was common knowledge that the Postal Rate Commission would issue its domestic decision later that week because the ten month deadline for deciding a rate case was about to expire. USPS requested comments on its proposed international increases be filed by April 1, 1988. Since the domestic rates went into effect April 3, this all too short 30-day notice procedure was obviously ~~useless~~.

(3) Eleven days before the April 1, 1988 deadline for comments, USPS issued a press release declaring that the proposed international postal rate increases published March 3, would go into effect April 3, 1988, the same day the Postal Governors established for the new domestic rate schedule. This cut the useless notice period to 22-days.

(4) On March 22, March 24, Congressmen Yatron and Leland wrote to USPS requesting deferral of the rate increase until Congress could take a look at it. USPS went ahead as originally scheduled.

(5) On March 25, USPS published a Postal Bulletin notice again setting forth its international increases. These

were now designated as "interim". This category of postal rates --interim--is found nowhere in postal laws or regulations. But the effective date for comments remained the same, April 1. The same Postal Bulletin said the rates would go into effect April 3, two days later.

(6) On March 28, 1988, members of the ABP Board of Directors and Legal Committee met with the Deputy Postmaster General, the Assistant Postmaster General for Rates and the International Postal Rate Counsel, and requested a delay in the April 3 deadline so that the full effects of the proposed increase could be assessed and U.S. policy in connection with UPU terminal dues could be reviewed by Congress. ABP explained that it was impossible to pass-through such a large increase without sufficient lead time to adjust to annual subscription and advertising contracts. USPS' position was that the rates had to go into effect April 3 as scheduled.

(7) Later that day, ABP filed an action in the U.S. District Court in Washington, requesting a restraining order and injunction. Judge Revercomb did not grant ABP's motions but he criticized the manner in which USPS imposed these increases, stating:

"Although the court recognizes that USPS has great discretion in setting international rates, the court notes that USPS could have avoided this litigation if it had proceeded in a more organized fashion and had not implemented interim rates precipitously. If USPS intends to utilize the device of interim rates to achieve international mail rate increases in the future, USPS would be well-served to implement formal procedures for doing so."

Mr. Chairman, we have learned through this experience what happens when USPS has unlimited power to set postal rates without any review by the Rate Commission, Congress, or the courts. Fortunately it cannot do this in domestic rate cases because it must obtain approval by the Postal Rate Commission for its proposals. That process requires notice and an opportunity for a hearing before rate hikes are recommended.

There is a defect in the present law. We have Postal Rate Commission oversight for domestic rates, and likewise we need to have it for international rates.

We recommend the Postal Reorganization Act be amended to include International Mail under the rate making provisions of the Act. This will not only provide the notice and hearing now denied by the statute, but allow cross-examination and meaningful explanation of the terminal dues costs dumped on the U.S. by nations benefitting from the information contained in U.S. periodicals. The Postal Rate Commission would have the same authority over international mail that it has for domestic mail.

USPS action has driven ABP to seek alternatives. We currently have postal experts in Europe discussing possible circulation outside the U.S. mails. It may well be that the terminal dues culprit USPS blames will also prevent the usage of an alternative to USPS, because foreign post offices that send more mail than they receive are also subject to the same terminal dues system. Nevertheless, we are exploring what may be possible if ABP's international publications can leave the U.S. mails.

And we are exploring direct shipment to Canada and entry into the Canadian Post for that portion of circulation which is Canadian.

Negotiations at past UPU meetings have been futile. In the summer of 1989, UPU will meet in Washington for six weeks. If the past is a guide, USPS again will raise the issue of terminal dues and again be voted down. USPS will then throw up its hands, say it did what it could, and announce more double digit rate increases, driving still more publications either out of the U.S. Postal Service or forcing publishers to eliminate the international portion of their circulation as just not worth it. This hurts U.S. sales abroad.

Until the terminal dues system is changed, we urge USPS withdrawal from UPU, a UN affiliated agency, the same way the U.S. withdrew from UNESCO, which also voted constantly against the U.S. Our negotiators could well spend their time at the 1989 meeting negotiating bilateral rather than multilateral UPU mail agreements. Does anyone really think other nations will not want their mail delivered here, or U.S. mail delivered overseas?

If USPS cannot achieve objectives beneficial to the U.S. like abolition of the terminal dues system, what possible benefit is there in further U.S. participation. The UNESCO withdrawal was salutary; UNESCO changed and the U.S. rejoined.

As publishers and advocates of freedom of the press, we also urge this committee to determine what the UPU has done to make certain that all UPU members permit their citizens to receive journals from all countries, including the U.S., without censorship.

In summary we propose two steps for your consideration: First, amend the Postal Reorganization Act so as to make international rates subject to the same procedures as domestic rates, by giving the Postal Rate Commission jurisdiction. A proposed amendment is attached.

Second, we urge Congress to pass legislation which would require the U.S. to withdraw from UPU until its methods are changed.

We would not be making these recommendations if history were not repeating itself. Past concern by this Committee and by publishers has gotten nowhere. USPS, ostensibly unable to act, just goes on unilaterally raising publishers international rates far more than domestic periodical rates.

We appreciate the support we have received from the Chairman and other members of the Subcommittees.

H.R. _____

An amendment to Title 39 of the U.S. Code providing that any increases in international postal rates and fees, or any proposed increases thereof, shall be subject to review of the Postal Rate Commission.

407. International Postal Arrangements

The present section (a) is deleted and substituted therefore shall be the following:

The Postal Service with the consent of the President may negotiate and conclude postal treaties or conventions and may establish the rates of postage or other charges on mail matter conveyed between the United States and other countries. International postal rates shall be established in the same manner and under the same procedures as domestic rates. No international rate shall be put into effect which shall not have been determined pursuant to the requirements of §§ 3622, 3623, 3624, 3625 and 3628 of Title 39.

Mr. GARCIA. Thank you.

Prior to the increases in the international rates this year and into '85, had there been any problems of the kind you encountered this year?

Mr. LAUNGER. I would like to refer that question to counsel, please.

Mr. SALTZSTEIN. Mr. Chairman, would you repeat the question?

Mr. GARCIA. Prior to the increases in international rates this year and in 1985, had there been any problems of the kind you encountered in those years?

Mr. SALTZSTEIN. Well, the terminal dues system, as I recall, has a relatively recent origin, and as they increase these rates, the percentages just escalate. Also as the rates go up, any percentage, then the cost per copy—which is what it finally boils down to—goes up quite a bit. That is where we are.

Mr. GARCIA. Since reorganization, how does the percentage increase for international rates compare to that for domestic rates?

Mr. LAUNGER. I have the percentage increase in international rates since the year 1968. If I might use the year 1968, which is the date I have, that increase has been on the order of 820 percent, and I believe—I am saying this now from memory—I believe the Consumer Price Index, for instance, during that same 20 year period, is up something like 250 percent.

What I don't know—counsel might be able to help me—is the size of domestic rate increases during the period since reorganization.

Mr. SALTZSTEIN. I can't give it precisely, but we will be glad to supply it for the record.

Mr. GARCIA. I think, Bob, with your permission, I think it was either three cents or five cents, and now it is 25 cents, so I guess we are talking about 500 percent.

Mr. SALTZSTEIN. That is right. This latest increase—we have it for two publications. The "Oil and Gas Journal," the domestic increase was under 15 percent, but the foreign increase was 52 percent. For "Computer Design," also published by PennWell, the domestic increase was about 17 percent. It varies periodically, as you know, but the foreign increase was 46.9 percent. This is higher than 29 to 40 percent we talked about. There is something wrong with this system.

Mr. GARCIA. Okay. So you are talking about a three to one, maybe four to one ratio, between domestic and international rates?

Mr. SALTZSTEIN. Between domestic and international.

Mr. GARCIA. Yes.

Mr. SALTZSTEIN. Right, Mr. Chairman.

It really is getting to a point where it is time, we believe, for Congress to act. There is a legitimate legal argument as to whether or not the Postal Rate Commission has jurisdiction. If they have jurisdiction on domestic rates, on practical grounds, why shouldn't they for international?

But there will be an argument; the Post Office will argue, just as they do in other matters.

Mr. GARCIA. I believe the committee agrees with you to some extent, and I think there is a bill they are putting together I think that would possibly meet your objections.

Mr. SALTZSTEIN. My hearing must be failing, but I can't believe it. Would you repeat it?

Mr. GARCIA. Counsel tells me they are working on a bill that I think will be satisfactory.

Mr. SALTZSTEIN. That is good news, Mr. Chairman.

Mr. GARCIA. You said that after the 1985 increase, a number of publishers have had to move overseas or take their business away from the Postal Service. What do you think the effects of this increase will be?

Mr. LAUINGER. In our case—and I think this will apply in a number of others—we are driven either to seek alternative lower cost delivery sources overseas, or if we are unable to find those—meaning services that are both lower cost and satisfactory delivery, we are faced with seriously considering a reduction in our levels of foreign circulation and readership, and those are the two alternatives that have been on our agenda, so to speak, since the imposition of the most recent raises.

It is too early to know what success we will have with alternative delivery sources. Insofar as a reduction in our levels of circulation that are presently mailed through USPS, I can again speak for our own company and say undoubtedly in certain markets, we will be forced to reduce that circulation. We try to increase subscription prices where they apply, but again, from a market standpoint, there is a limit to which we can recover a 40-percent, one-year cost increase. We can't recover those on any year-end basis.

Mr. GARCIA. I would like to apologize for the delay in getting this subcommittee hearing underway. I guess we got started about an hour late. We did have the opportunity to hear from the Postal Service Rates and Classification Department. We have had the opportunity to hear from you. We will now adjourn the subcommittees.

Thank you all very much.

Mr. LAUINGER. Thank you, Mr. Chairman.

Mr. SALTZSTEIN. Thank you very much, Mr. Chairman.

[Whereupon, at 3:35 p.m., the subcommittees were adjourned, subject to the call of the Chair.]

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